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DEPARTMENT PLEASE PASS TO NSC FOR ADAM STERLING

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SUBJECT: ANNO HORRIBILIS: HUNGARY ENDS 2006 WITH RELIEF BUT  
ENTERS 2007 WITH TREPIDATION

REF: A) BUDAPEST 2161 B) BUDAPEST 2505 C) BUDAPEST 2517

Classified By: POL/C ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

¶1. (C) Summary: Winter has imposed a temporary cease-fire in Hungary's running political battles, allowing the parties to regroup in preparation for what all anticipate will be a busy year ahead. Prime Minister Gyurcsany is using the winter months to reach out to the opposition and to shore up his position within the MSZP before the full economic impact of the austerity measures hits home. Allies as well as opponents expect FIDESZ to return to the disruptive tactics of the past months in the New Year. Both the junior coalition partner SZDSZ and the center-right MDF will face hard questions about their ability to survive in an atmosphere dominated by the major parties, and all the parties will have to confront a public that is increasingly inclined to consider all politicians as part of the problem. End Summary.

#### A SERIES OF UNFORTUNATE EVENTS

¶2. (C) The ruling MSZP will not miss 2006. Despite PM Gyurcsany's solid victory in the April elections, the events of the autumn took a significant toll on the government's credibility. The PM is betting that time will heal these wounds by allowing his austerity measures to work, but most in the party recognize that things will likely get worse economically - and hence politically - before they get better.

¶3. (C) Professing confidence that he will "win back whatever support we lose," Gyurcsany is moving forward on his reform agenda with renewed - if not completely restored - confidence (ref a). He has been careful to offer the opposition the opportunity to discuss - but not derail - issues including the allocation of EU development funds. If this has not won him the moral high ground, it has at least helped level the playing field.

¶4. (C) Gyurcsany is also reportedly using the winter months to consider internal reforms (ref b). After repeated indications of dissatisfaction with his government's staffing, structure, and communications strategy, observers now predict changes in the cabinet in the spring. As one party official noted, "there has been enough time for some cabinet ministers to demonstrate their incompetence."

¶5. (C) The PM has made his survival a strength, and now seems poised to win the MSZP presidency in the spring. Although continued grumbling from the party's more traditional elements is expected, most see no better alternative to Gyurcsany. Indeed, some see the advantage of letting him take the heat for now ... and perhaps take the fall before the next elections.

2010 ALREADY?

¶6. (C) The next elections are already looming large for the MSZP's junior coalition partner, the SZDSZ. In many ways, the past months have been the hardest on the SZDSZ, with the October local elections bringing significant setbacks. 2007 will likely see the party debating its future direction and preparing to fight for its future survival in Parliament in the elections of 2010 (ref c).

NOTHING SUCCEEDS LIKE ... FAILURE?

¶7. (C) The government has been fortunate in its opposition. FIDESZ proved unable to translate its significant successes in the October local elections into a decisive victory, and has now failed to defeat Gyurcsany as a weak candidate or a wounded Prime Minister. Few doubt, however, that it will continue its tactics to disrupt his governing agenda, particularly after party president Viktor Orban's recent advice to the party faithful to "rest up" for a busy spring. Some other party leaders believe that "Orban knows no other way," and friends and foes expect renewed efforts to bring the people to the streets in the spring even though such tactics have provided more heat than light in the past months.

¶8. (C) Although its new influence at the local level should be a source of new blood - and is already reportedly a source of income for FIDESZ's depleted electoral coffers - Orban appears intent on maintaining his personal control over both policy and personnel decisions. Given Orban's recent record, that may be worse news for Hungary than for Gyurcsany. Indeed, MSZP MP Vilmos Szabo confided to us that FIDESZ's victories at the local level will make it easier for the

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Prime Minister to do what he has wanted to do all along: reduce the public sector by consolidating government services at the regional level.

LONELY IN THE MIDDLE

¶9. (C) The small center-right MDF continues to cling to its independence by opposing both the government and FIDESZ, but has little realistic prospect of realizing its moderate agenda in 2007. Although the MDF would likely win an election within the diplomatic community, their public appeal is still very much in question. The recent publication of an internal strategy paper widely criticized as amateurish hurt the party, and one political scientist who advises the MDF admits to wondering "whether there's any there there."

PUBLIC MOOD: THE SAME ... ONLY MORE SO

¶10. (C) Comment: Although the MDF hopes to attract voters from both sides of the spectrum in the longer term, polls show that Hungarians are less inclined to turn to a new party than to simply turn away from politics altogether. The events of 2006 have done little to overcome the reflexive pessimism of the Hungarian public, which saw its suspicions regarding the system seemingly confirmed by lies at the top and violence in the streets. The public debate has focused less on the future than on the past, with heavy emphasis placed on the legacy of 1956 and the "lost victory" of 1989 rather than the challenges of the 21st century. As one local commentator noted, Hungary's entry to the European Union has made it less united in its national priorities and less European in its political norms. Both trends are likely to continue in 2007. End Comment.

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